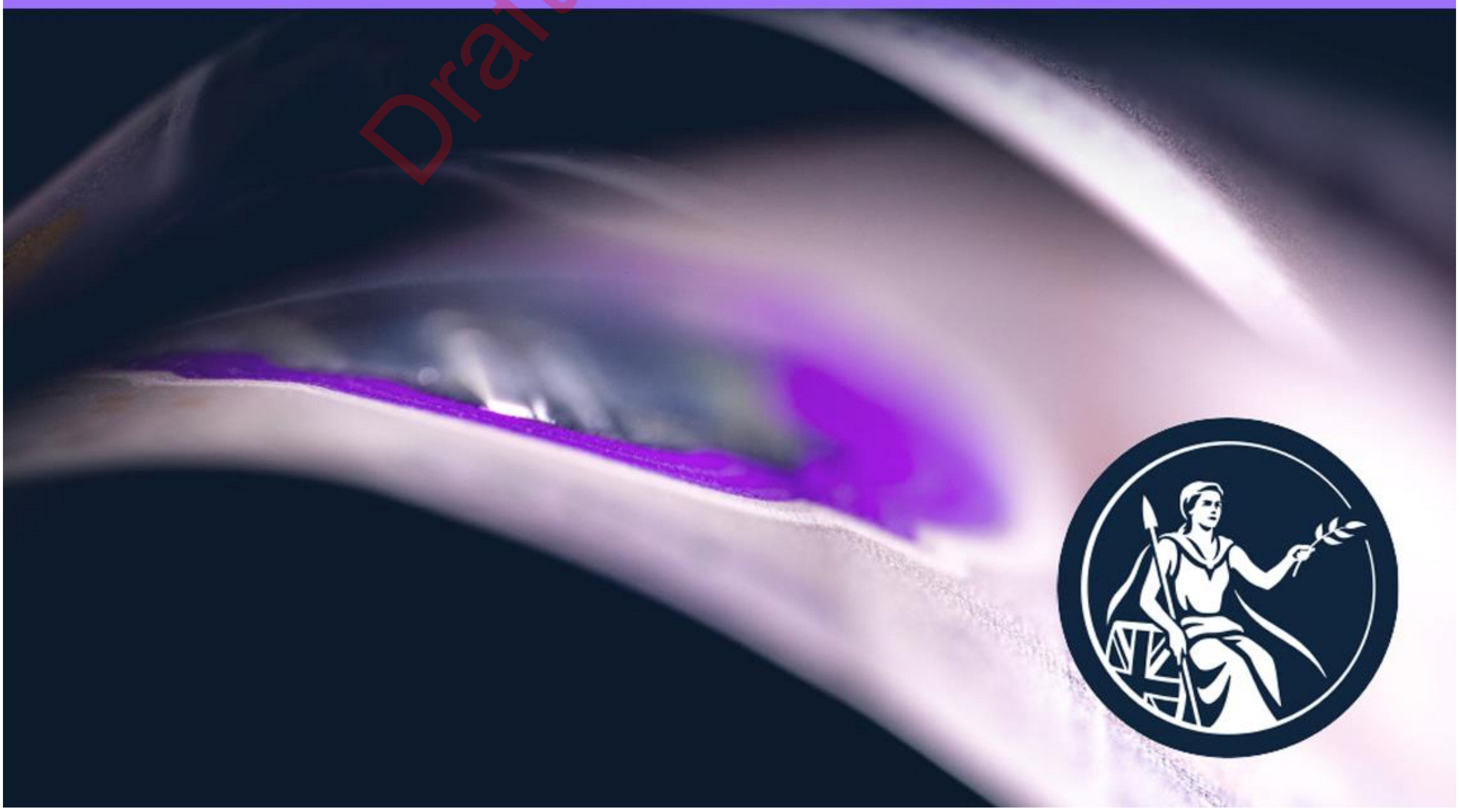
Bank of England PRA

Appendix 14: Draft amendments to SS4/15 – Solvency II: the solvency and minimum capital requirements

Consultation paper | CP12/23

June 2023



Draft amendments to SS4/15 – Solvency II: the solvency and minimum capital requirements

In this appendix, new text is underlined and deleted text is struck through.

...

Supervisory statement 4/15 – Solvency II: the solvency ~~and minimum~~ capital requirements

...

1 Introduction

1.1 This supervisory statement is addressed to UK Solvency II firms and to the Society of Lloyd's, its members and managing agents. It sets out the Prudential Regulation Authority's (PRA's) expectations of firms in relation to the calculation of their solvency capital requirement (SCR) under Solvency II.

1.2 In particular, this statement expands on the following topics:

• undertaking specific parameters;

• ~~significant deviations from the assumptions underlying the standard formula, internal models, or the system of governance~~ calculation of the Solvency Capital Requirement covering

  • reversion to the standard formula; and

  • statistical quality standards~~; and~~

~~• calculation of the minimum capital requirement~~.

1.3 This statement should be read alongside the relevant European legislation (as it forms part of retained EU law), as well as the Solvency Capital Requirement Parts and Minimum Capital Requirement Part of the PRA Rulebook.

…

1.6 Firms should also refer to:

- the Bank of England and PRA statement of policy (SoP) – Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU;[3]
- supervisory statement SS1/19 – Non-binding materials: The PRA's approach after the UK's withdrawal from the EU;[4] and
- supervisory statement SS2/19 – PRA approach to interpreting reporting and disclosure requirements and regulatory transactions forms after EU withdrawal.[5]

1.7 Any reference to any provision of direct EU legislation is a reference to it as it forms part of retained EU law.

2 Undertaking specific parameters

2.1 ~~Under Article 104(7) of the Solvency II Directive, f~~Firms may~~, with the prior approval of the PRA,~~ apply to the PRA to waive or modify Own Funds 2.5 - 2.7 to replace a subset of parameters with undertaking specific parameters when calculating the life, non-life and health underwriting risk modules. ~~A firm may apply for this approval by applying to the PRA for a waiver.~~

…

2.3 [Deleted] ~~The PRA may also require a firm, using its powers under section 55M of the Financial Services and Markets Act 2000 (FSMA), to replace a subset of the parameters used in the standard formula by undertaking specific parameters when calculating the life, non-life and health underwriting risk modules, where it is inappropriate to calculate the SCR in accordance with the standard formula because the firm's risk profile deviates significantly from the assumptions underlying the standard formula (see Article 110 of the Solvency II Directive)~~.

3 ~~Significant deviations from the assumptions underlying the standard formula calculation, internal model, and/or system of governance~~ Calculation of the Solvency Capital Requirement

3.1 [Deleted] ~~Where it is inappropriate for a firm to calculate the SCR in accordance with the standard formula, because its risk profile deviates significantly from the assumptions~~

3 April 2019: https://www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop.
4 April 2019: https://www.bankofengland.co.uk/prudential-regulation/publication/2019/non-binding-pra-materials-the-pras-approach-after-the-uks-withdrawal-from-the-eu-ss.
5 April 2019: www.bankofengland.co.uk/prudential-regulation/publication/2019/pra-approach-to-interpreting-reporting-and-disclosure-reqs-and-reg-trans-forms-ss.

~~underlying the standard formula calculation, then the PRA may require the firm to use an internal model to calculate the SCR, or the relevant risk modules of the SCR.~~

3.2 [Deleted] ~~Article 37 of the Solvency II Directive contemplates the PRA applying a capital add-on to a firm in circumstances where there has been a standard formula significant risk profile deviation, an internal model significant risk profile deviation, a significant system of governance deviation, or a significant risk profile deviation following the application of the matching adjustment, volatility adjustment or transitional measures in Articles 308c or d, in circumstances where the conditions stipulated in article 37(1)(a), (b), (c) or (d) have been met. The PRA will use its powers under section 55M of FSMA in order to apply a capital add-on. The Solvency II Regulations also apply in relation to the imposition of a capital add-on.~~

Reversion to the standard formula

3.3 A firm may apply to the PRA ~~for a waiver of~~ to waive or modify Solvency Capital Requirement — Internal Models 8.1, if there are duly justified circumstances for the firm to revert to calculating the SCR on the basis of the standard formula.

3.4 If a firm fails to implement the plan to restore compliance referred to in Solvency Capital Requirement — Internal Models 9.1, the PRA may require the firm to revert to calculating the SCR in accordance with the standard formula. Further detail on scenarios where this may be applicable are set out in the SoP – Solvency II internal models: Permissions and ongoing monitoring.[6]

Statistical quality standards

…

3.7 If a firm cannot derive the SCR directly from the probability distribution forecast generated by its internal model, then the firm may apply to the PRA for a waiver ~~of~~ or modification to Solvency Capital Requirement — Internal Models 12.2 so that approximations may be used in the process to calculate the SCR. In considering whether to grant such a waiver or modification, the PRA will consider whether policyholders are provided with a level of protection equivalent to that set out in Solvency Capital Requirement — General Provisions 3.2–3.5 ~~and Solvency Capital Requirement — Internal Models 3.1(2)~~. ~~The Solvency II Regulations contain additional requirements relevant to a firm seeking a waiver of Solvency Capital Requirement — Internal Models 12.2.~~

4 The minimum capital requirement

This chapter has been deleted.

[6] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2023/june/cp1223app5.pdf.

~~4.1 The PRA may, until 31 December 2017, require a firm to apply the percentages referred to in Minimum Capital Requirement 3.3 to the firm's SCR calculated in accordance with the standard formula. An example of when the PRA may require this would be where the output from the firm's internal model has deviated from the firm's risk profile and where the standard formula provides a better fit to the firm's risk profile.~~